

U S WEST COMMUNICATIONS, INC.
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
(Dollars in millions)

Item	Charged to costs and expenses		
	1993	1992	1991
Gross Receipts Taxes	\$73.1	\$71.3	\$91.3
Property Taxes	281.4	253.5	280.1
Maintenance and Repairs	1,567.9	1,495.8	1,399.8

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U S WEST COMMUNICATIONS, Inc.
RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in millions)	Quarter Ended 12/31/93	Quarter Ended 12/31/92
Income before income taxes and extraordinary items	\$414.5	\$344.9
Interest expense	87.7	97.9
Interest factor on rentals (1/3)	19.0	17.2
Earnings (loss)	\$521.2	\$460.0
Interest expense	\$87.7	\$97.9
Interest factor on rentals (1/3)	19.0	17.2
Fixed charges	\$106.7	\$115.1
Ratio of earnings (loss) to fixed charges	4.88	4.00

(Dollars in millions)	Year Ended 12/31/93	Year Ended 12/31/92
Income before income taxes, extraordinary items and cumulative effect of change in accounting principles	\$686.8	\$1,385.0
Interest expense	373.8	401.5
Interest factor on rentals (1/3)	67.3	64.6
Earnings	\$1,127.9	\$1,851.1
Interest expense	\$373.8	\$401.5
Interest factor on rentals (1/3)	67.3	64.6
Fixed charges	\$441.1	\$466.1
Ratio of earnings to fixed charges	2.56	3.97

The year ended 1993 ratio is based on income before extraordinary charges associated with the decision to discontinue accounting for the operations of the Company in accordance with SFAS No. 71 of \$3,040.9 and the early extinguishment of debt of \$77.2. The year ended 1993 ratio includes a one-time restructuring charge of \$880.0. Excluding the restructuring charge the ratio of earnings to fixed charges would have been 4.55.

The year ended 1992 ratio is based on income before the cumulative effect of change in accounting principles which reduced net income by \$1,724.4.

ATTACHMENT 4

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1994

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-3040

U S WEST Communications, Inc.

A Colorado Corporation

IRS Employer No.
84-02738001801 California Street, Denver, Colorado 80202
Telephone Number (303) 896-3099

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Forty Year 3 1/4% Debentures due February 1, 1996	New York Stock Exchange

Registered pursuant to Section 12 (g) of the Act: None.

THE REGISTRANT, AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE
CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS
THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL
INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of
Regulation S-K is not contained herein, and will not be contained, to the best of
the registrants knowledge in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. ***

*** Not applicable in that registrant is an indirect, wholly owned subsidiary.

The total number of pages contained in this report, including exhibits, is 42 and
the exhibit index is on page 38.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART I

ITEM 1. BUSINESS

General

U S WEST Communications, Inc. (the "Company") is incorporated under the laws of the State of Colorado and has its principal offices at 1801 California Street, Denver, Colorado, 80202, telephone number (303) 896-3099. The Company is an indirect, wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

The Company was formed January 1, 1991, when Northwestern Bell Telephone Company ("Northwestern Bell") and Pacific Northwest Bell Telephone Company ("Pacific Northwest Bell") were merged into The Mountain States Telephone and Telegraph Company ("Mountain Bell"), which simultaneously changed its name to U S WEST Communications, Inc. U S WEST acquired ownership of Mountain Bell, Northwestern Bell and Pacific Northwest Bell on January 1, 1984, when American Telephone and Telegraph Company ("AT&T") transferred its ownership interests in these three wholly-owned operating telephone companies to U S WEST. This divestiture was made pursuant to a court approved consent decree entitled the Modification of Final Judgment ("MFJ"), which arose out of an antitrust action brought by the United States Department of Justice against AT&T.

Company Operations

The Company provides telecommunications services in the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming (the "14 state region"). The Company serves approximately 80% of the population in these states and approximately 40% of the land area. At December 31, 1994, the Company had approximately 14,336,000 telephone network access lines in service, a 3.6% increase over year end 1993. (4.0% growth excluding the effects of the sale of 60,000 lines in rural telephone exchanges.)

Under the terms of the MFJ, the 14 state region was divided into 29 geographical areas called local access and transport areas ("LATAs") with each LATA generally centered on a metropolitan area or other identifiable community of interest. The principal types of telecommunications services offered by the Company are (i) local service, (ii) intraLATA long-distance service and (iii) exchange access service (which connects customers to the facilities of interLATA service providers). For the year ended December 31, 1994, local service, exchange access service and intraLATA long distance service accounted for 45%, 33% and 15%, respectively, of the sales and other revenues of the Company. In 1994, revenues from a single customer, AT&T, accounted for approximately 13% of the Company's sales and other revenues.

Research and Development

The Company recognized \$23, \$42 and \$55 for research and development expense in 1994, 1993 and 1992, respectively. Approximately half of this activity was conducted at Bell Communications Research, Inc., one-seventh of which is owned by Company.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART I

ITEM 1. BUSINESS (continued)

Competition (continued)

Competition from long distance companies continues to erode the Company's market share of intraLATA long distance services such as WATS and "800." These revenues have declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. The Company is prohibited from providing interLATA long distance services.

The actions of state and federal public policymakers will play an important role in determining how increased competition affects the Company. The Company is working with regulators and legislators to help ensure that public policies keep pace with our rapidly changing industry and allow the Company to bring new services to the marketplace.

The Company supports regulatory reform. It is increasingly apparent that the legal and regulatory framework under which the Company operates, which includes restrictions on equipment manufacturing, prohibitions on cross-ownership of cable television by telephone companies and restrictions on the transport of communications, entertainment and information across LATA boundaries, limits both competition and consumer choice. The Company believes that it is in the public interest to lift these restrictions and to place all competitors under the same rules to ensure the industry's technological development and long-term financial health.

Competitive Strategy

The Company intends to implement its competitive strategy by focusing on three key objectives: 1) business growth through the development of broadband networks; 2) customer loyalty through continuous improvement in customer service; and 3) improved productivity through systems re-engineering and other cost controls.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART I

ITEM 3. LEGAL PROCEEDINGS

With respect to lawsuits, proceedings and other claims pending at year-end, it is the opinion of management that after final disposition, any monetary liability or financial impact to the Company beyond that provided at year-end, would not be material to the consolidated financial position of the Company.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

OPERATING REVENUES

Total operating revenues were \$8,998, a \$342 or 4.0% increase over the prior year. In the tables below, price changes primarily represent the aggregate effects of price changes resulting from regulatory proceedings and growth represents increased market penetration (through increased access lines and additional sales of products and services to existing customers). Different regulatory commissions govern the interstate and intrastate jurisdictions, resulting in varying price and refund impacts.

Local Service

Price Changes	Refund Activity	Growth	Other	Increase	
				\$	%
\$ (12)	\$ 30	\$ 216	\$ 4	\$ 238	6.2

Local service revenues include local telephone exchange, local private line and public telephone services. The increase in local service revenues was primarily attributable to access line growth, which exceeded 5 percent in the states of Arizona, Colorado, Idaho and Utah.

Access Charges

Access charges are collected primarily from the interexchange carriers for their use of the local exchange network. For interstate access services, there is also a fee collected directly from telephone customers. Approximately 35 percent of access revenues and 13 percent of total revenues are derived from providing access service to AT&T.

Interstate Access Service

Price Changes	Refund Activity	Growth	Other	Increase	
				\$	%
\$ (39)	\$ 18	\$ 148	\$ (5)	\$ 122	5.7

An increase of 7.8 percent in interstate billed access minutes of use more than offset the effects of price decreases. Interstate price reductions have been phased in by the Federal Communications Commission ("FCC") over a number of years. In response to competitive pressure and FCC orders, the Company reduced its annual interstate access prices by approximately \$40 during 1994, in addition to \$60, effective July 1, 1993. The Company believes access prices will continue to decline, whether mandated by the FCC or as a result of an increasingly competitive market for access services.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

OPERATING EXPENSES (continued)

Employee-related costs include basic salaries and wages, overtime, contract labor, benefits (including pension and health care) and payroll taxes. Higher costs of approximately \$90 were a result of additional overtime payments, contract labor, and basic salaries and wages, all related to the implementation of customer service and streamlining initiatives. A pension credit reduction of \$66 resulted from a change in actuarial assumptions, including decreases in the discount rate and the expected long-term rate of return on plan assets. Partially offsetting these increases were the effects of employees leaving the Company under the restructuring program, lower health-care benefit costs including a reduction in the accrual for postretirement benefits and lower incentive compensation payments to employees.

During the summer of 1994, increased customer demand put additional stress on current processes and systems, and affected the quality of service in certain markets. The pace of the Company's restructuring program also contributed to quality of service issues. However, the issues pertaining to quality of service underscore the need to re-engineer the business. The Company achieved target levels of service at year end by implementing customer service initiatives and slowing the pace of its restructuring program. To continue improving upon the level of service quality achieved by year-end 1994, the Company will incur additional near-term costs for temporary employees, overtime and contract labor. The Company will also stretch out its 1993 restructuring plan an additional year, to 1997. As a result of these actions, the annual benefits related to restructuring will not be fully realized until 1998 (see "Restructuring Charges").

Other operating expenses include access charges, network software expenses, cost of services and products provided by affiliates, and other administrative expenses. Contributing to the increase in other operating expenses were additional network software expenses and advertising costs incurred for the increased deployment of new products and expansion of markets for existing products. The increase was partially offset by the \$48 reduction in access expense related to the effects of the multiple toll carrier plan (see "Long-Distance Network Service").

The increase in depreciation and amortization expense was primarily a result of a higher depreciable asset base and increased depreciation rates. The Company's discontinuance of SFAS No. 71 in September 1993 has resulted in the use of shorter asset lives to more closely reflect the economic lives of telephone plant. The Company continues to pursue improved capital recovery within the regulated environment.

INTEREST AND OTHER

Interest expense decreased in 1994 due to the effects of a debt refinancing program in 1993 and a reclassification of capitalized interest. Pursuant to the discontinuance of SFAS No. 71, interest capitalized as a component of telephone plant construction is now being reflected as an offset to interest expense, rather than as an income component of other income (expense).

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

RESTRUCTURING CHARGES (continued)

Following is a schedule of the costs included in the Plan:

	Actual		Estimate		
	1994	1995	1996	1997	Total
Cash expenditures					
Employee separation	\$ 19	\$ 61	\$ 72	\$ 73	\$ 225
Systems development	118	128	114	-	360
Real estate	50	80	-	-	130
Relocation	21	54	4	26	105
Retraining and other	8	19	10	23	60
Total cash expenditures	216	342	200	122	880
Remaining 1991 plan employee costs	56	-	-	-	56
Total (1)	\$ 272	\$ 342	\$ 200	\$ 122	\$ 936

(1) The Plan also provides for capital expenditures of \$440 over the life of the restructuring plan. In 1994, capital expenditures related to restructuring were \$265.

Employee separation costs include severance payments, health-care coverage and postemployment education benefits. Systems development costs include the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. The work-force reductions would not be possible without the development and installation of the new systems, which will eliminate the current, labor-intensive interfaces between existing processes. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation.

The Company estimates that full implementation of the Plan will reduce employee-related expenses by approximately \$400 per year. These savings are expected to be offset by the effects of inflation.

The following estimates of employee separations and related amounts reflect the extension of employee reductions into 1997.

	Estimate Actual		Estimate			
	1994	1994 (2)	1995	1996	1997	Total
Employee separations (1)						
Managerial	1,061	497	814	580	559	2,450
Occupational	1,887	1,683	1,136	1,845	1,886	6,550
Total	2,948	2,180	1,950	2,425	2,445	9,000

U S WEST COMMUNICATIONS, INC.

FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

RESTRUCTURING CHARGES (continued)

Systems Development (continued)

The direct, incremental and nonrecurring systems development costs contained in the Plan are comprised of the following amounts:

	Estimate	Actual	Estimate		
	-----	-----	-----	-----	
	1994	1994	1995	1996	Total
Service delivery	\$ 35	\$ 21	\$ 15	\$ 37	\$ 73
Service assurance	45	12	17	35	64
Capacity provisioning	17	57	92	30	179
All other	8	28	4	12	44
Total	\$ 105	\$ 118	\$ 128	\$ 114	\$ 360

Original estimates of system expenditures in 1995 and 1996 were \$140 and \$115, respectively. Though current estimates in total are not materially different, the timing and amount of expenditures by category has changed.

The majority of systems development labor will be supplied through the use of temporary employees, contractors and new employees with special skills. While it is likely that a small number of the new employees will be retained after completion of the Plan due to their specialized skills, it is planned that any related increase in headcount will be offset through other employee reductions.

Systems expenses charged to current operations consist of all costs associated with the information management function, including planning, developing, testing and maintaining data bases for general purpose computers, in addition to systems costs related to maintenance of telephone network applications. The key related administrative (i.e. general purpose) systems include customer service, order entry, billing and collection, accounts payable, payroll, human resources and property records. Ongoing systems costs comprised approximately six percent of total operating expenses in 1994, 1993 and 1992. The Company expects systems costs charged to current operations as a percent of total operating expenses to approximate the current level throughout the life of the Plan. However, systems costs could increase relative to other operating costs as the business becomes more technology dependent.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

OTHER ITEMS (continued)

Federal Regulatory Issues (continued)

In October 1994, the 9th U.S. Circuit Court of Appeals overruled the FCC's Computer III non-structural separation decision for the provision of enhanced services on an integrated basis. The effect of the decision is to return to the provision of such service through a separate subsidiary, which could make it more difficult for local exchange carriers to offer enhanced services. In January 1995, the FCC granted a waiver for the continued provision of enhanced services, pending further proceedings by the FCC.

In August 1994, the U.S. Circuit Court of Appeals for the District of Columbia upheld an FCC ruling that neither telephone companies nor customer programmers need to obtain a franchise from local governments to provide Video Dial Tone ("VDT") service. The decision means that local telephone companies will avoid additional franchise fees related to the provisioning of VDT services.

In June 1994, the U.S. Circuit Court of Appeals for the District of Columbia overturned the FCC's requirement that local telephone companies allow physical collocation by third parties (competitive access providers), within their central offices, for the installation and operation of equipment that connects to the local telephone network. The decision essentially affirms the private property rights of corporations. The court also ordered the FCC to reconsider its requirement that allows competitors to interconnect equipment to the local network from a point outside a central office. In light of the rulings, the Company is evaluating how it can provide future interconnection services.

On June 20, 1994, the seven regional Bell operating companies ("RBOCs") asked the divestiture court for a waiver of the Court's restriction on the RBOCs' provision of wireless long-distance services. The consent decree restricts the RBOCs from providing long-distance services as well as manufacturing. The request for a waiver closely follows a recommendation by the Department of Justice that the RBOCs be allowed to provide wireless long-distance services.

The FCC has adopted a regulatory structure known as "Open Network Architecture" ("ONA"), under which the Company is required to unbundle its telephone network services in a manner that will accommodate the service needs of the growing number of information service providers. Under ONA, the number of local exchange service competitors could increase significantly.

The Company's interstate services have been subject to price cap regulation since January 1991. Price caps are a form of incentive regulation designed to limit prices rather than profits. The price cap plan is currently under review by the FCC.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

OTHER ITEMS (continued)

Interest Rate Risk Management (continued)

Notional amounts on interest rate swaps outstanding at December 31, 1994, were \$781 with various maturities that extend to 1999. The estimated effect of the Company's interest rate derivative transactions was to adjust the level of fixed-rate debt from 73.8 percent to 86.2 percent of the total debt portfolio.

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions)	Year Ended December 31,		
	1994	1993	1992
OPERATING REVENUES			
Local service	\$4,067	\$3,829	\$3,674
Interstate access service	2,269	2,147	2,047
Intrastate access service	729	682	673
Long-distance network service	1,329	1,442	1,420
Other services	604	556	510
Total operating revenues	8,998	8,656	8,324
OPERATING EXPENSES			
Employee-related expenses	2,930	2,870	2,829
Other operating expenses	1,653	1,646	1,590
Taxes other than income taxes	378	380	348
Depreciation and amortization	1,887	1,806	1,735
Restructuring charges	-	880	-
Total operating expenses	6,848	7,582	6,502
Income from operations	2,150	1,074	1,822
Interest expense	331	374	402
Gain on sales of rural telephone exchanges	82	-	-
Other expense - net	20	13	35
Income before income taxes, extraordinary items and cumulative effect of change in accounting principles	1,881	687	1,385
Provision for income taxes	706	252	435
Income before extraordinary items and cumulative effect of change in accounting principles	1,175	435	950
Extraordinary items			
Discontinuance of SFAS No. 71, net of tax	-	(3,041)	-
Early extinguishment of debt, net of tax	-	(77)	-
Cumulative effect of change in accounting principles (accounting for postemployment and postretirement benefits), net of tax	-	-	(1,724)
NET INCOME (LOSS)	\$1,175	(\$2,683)	(\$774)

The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31, 1994	December 31, 1993
<hr/>		
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities		
Short-term debt	\$1,485	\$1,260
Accounts payable	883	935
Employee compensation	283	303
Current portion of restructuring charges	317	421
Property taxes payable	207	200
Advance billings and customer deposits	211	198
Other accrued liabilities	465	495
	-----	-----
Total current liabilities	3,851	3,812
	-----	-----
Long-term debt	4,242	4,092
Postretirement and postemployment benefit obligations	2,393	2,592
Deferred taxes and credits	1,530	1,526
Shareowner's equity		
Common shares - one share without par value, owned by parent	7,286	6,742
Retained earnings (deficit)	(3,602)	(3,602)
	-----	-----
Total shareowner's equity	3,684	3,140
	-----	-----
Total liabilities and shareowner's equity	\$15,700	\$15,162
	=====	=====

Contingencies (refer to Note 3 of the Notes to the Consolidated Financial Statements)

The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The Consolidated Financial Statements include the accounts of U S WEST Communications, Inc. and its wholly-owned subsidiaries (the "Company"). The Company is an indirect, wholly owned subsidiary of U S WEST, Inc. The Company was formed as a result of the January 1, 1991, merger of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company. The merger was accounted for as a transfer of assets among entities under common control similar to that of a pooling-of-interests.

In the third quarter of 1993, the Company discontinued accounting for its operations under Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." Refer to Note 6 of the Notes to Consolidated Financial Statements.

Certain reclassifications within the Consolidated Financial Statements have been made to conform to the current year presentation.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include highly liquid investments with original maturities of three months or less which are readily convertible into cash and which are not subject to significant risk resulting from changes in interest rates.

MATERIALS AND SUPPLIES: New and reusable materials are carried principally at average cost, except for significant individual items which are valued based on specific costs. Non-reusable material is carried at its estimated salvage value.

PROPERTY, PLANT AND EQUIPMENT: The investment in property, plant and equipment is carried at cost less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Capitalized costs include applicable salaries and employee benefits, materials, taxes and certain other items. The cost of repairs and maintenance for property, plant and equipment is charged to expense as incurred.

The Company's provision for depreciation of property, plant and equipment is based on various straight-line group methods using remaining useful (economic) lives based on industry-wide studies. Prior to discontinuing SFAS No. 71, depreciation was based on lives specified by regulatory commissions. When depreciable property, plant and equipment is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

The Company capitalizes interest related to qualifying construction projects and amortizes this cost over the remaining service lives of the related assets. Capitalized interest is recorded as a reduction of interest expense. Prior to the Company's discontinuance of SFAS No. 71, capitalized interest was recorded as an element of other expense. Total amounts capitalized by the Company were \$36, \$19 and \$23 in 1994, 1993 and 1992, respectively.

REVENUE RECOGNITION: Local telephone service revenues are generally billed monthly in advance. These revenues are recognized when services are provided. Nonrecurring and usage sensitive revenues derived from installation, exchange access and long distance services are billed and recognized monthly as services are provided.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 4: RELATED PARTY TRANSACTIONS

The Company purchases various services, as noted, from affiliated companies. The amount paid by the Company for these services is determined in accordance with FCC and state cost allocation rules, which prescribe various cost allocation methodologies that are dependent upon the service provided. Management believes that such cost allocation methods are reasonable. The costs of those services are billed to the regulated company.

It is not practicable to provide a detailed estimate of the expenses which would be recognized on a stand-alone basis. However, the Company believes that corporate services, including those related to shareholder relations, procurement, tax, legal and human resources, are obtained more economically through affiliates than they would be on a stand-alone basis, since the Company absorbs only a portion of the total costs. Additionally, through its 1/7 ownership interest in Bellcore (see footnote 1 below), the Company obtains benefits associated with research and development activities which exceed the Company's share of the total costs.

The Company's operations include the following charges for these services:

	Year Ended December 31,		
	1994	1993	1992
Research and development (1)	\$266	\$177	\$199
Procurement	114	107	96
Corporate services	97	101	89
Marketing services	66	66	49
Telecommunications	13	16	18
Leased office space	12	11	10
Other	36	34	36
Total	\$604	\$512	\$497

(1) Includes charges related to research, development and maintenance of existing technologies performed by Bellcore, a telecommunications research entity in which the Company has 1/7 ownership interest.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 6: DISCONTINUANCE OF SFAS NO. 71

The Company incurred a non-cash, extraordinary charge of \$3 billion, net of an income tax benefit of \$2.3 billion, in conjunction with its decision to discontinue accounting for its operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as of September 30, 1993. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, competition notwithstanding, by charging its customers at prices established by its regulators. The Company's decision to discontinue the application of SFAS No. 71 was based on the belief that competition, market conditions and the development of broadband technology, more than prices established by regulators, will determine the future cost recovery by the Company. As a result of this change, the remaining asset lives of the Company's telephone plant have been shortened to more closely reflect the useful (economic) lives of such plant.

Following is a list of the major categories of property, plant and equipment and the manner in which lives were affected by the discontinuance of SFAS No. 71:

Category	Average Life (years)	
	Before Discontinuance	After Discontinuance
Digital switch	17-18	10
Digital circuit	11-13	10
Aerial copper cable	18-28	15
Underground copper cable	25-30	15
Buried copper cable	25-28	20
Fiber cable	30	20
Buildings	27-49	27-49
General purpose computers	6	6

The Company employed two methods to determine the amount of the extraordinary charge. The "economic life" method assumed that a portion of the plant-related effect is a regulatory asset that was created by the under-depreciation of plant under regulation. This method yielded the plant-related adjustment that was confirmed by the second method, a discounted cash flows analysis.

Following is a schedule of the nature and amounts of the after-tax charge recognized as a result of the Company's discontinuance of SFAS No. 71:

Plant-related	\$3,124
Tax-related regulatory assets and liabilities	(208)
Other regulatory assets and liabilities	125

Total	\$3,041
	=====

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 9: DEBT

The components of short-term debt follow:

	December 31,	
	1994	1993
Commercial paper	\$1,321	\$979
Current portion of long-term debt	164	281
Short-term debt	\$1,485	\$1,260

The weighted average interest rate on commercial paper was 5.92 percent and 2.73 percent at December 31, 1994 and 1993, respectively.

Under formal lines of credit with major banks, the Company is permitted to borrow up to \$600, all of which was available at December 31, 1994.

Interest rates and maturities on long-term debt follow:

	December 31,	
	1994	1993
<u>Maturing within 5 years:</u>		
6 % to 6 5/8 % due 1995	\$ -	\$ 92
7 1/2 % to 7 5/8 % due 1996	370	370
5 2/3 % to 7 1/2 % due 1997	42	17
4 7/8 % to 5 5/8 % due 1998	335	335
6 1/4 % to 6 5/8 % due 1999	226	-
<u>Maturing thereafter:</u>		
Up to 6% with various maturities through 2007	501	501
Above 6% to 9% with various maturities through 2043	2,435	2,435
Above 9% to 12% with various maturities through 2030	320	320
	4,229	4,070
Unamortized discount (net) and debt issuance costs	(122)	(124)
Other	135	146
Long-term debt	\$4,242	\$4,092

Interest payments (net of amounts capitalized) were \$344, \$386 and \$406, respectively, for 1994, 1993 and 1992.

During 1993, the Company refinanced debt issues aggregating \$2.7 billion in principal amount to take advantage of favorable interest rates. The refinancing resulted in an extraordinary charge to income of \$77, net of a tax benefit of \$48.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In 1993, the Company executed forward contracts to sell U.S. Treasury Securities to reduce debt issuance risks by allowing the Company to lock in the treasury rate component of the future debt issue. At December 31, 1994, deferred credits of \$8 and deferred charges of \$51 on closed interest rate forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are being recognized as a yield adjustment over the life of the debt, which matures at various dates through 2043. The net deferred charge is directly offset by the lower coupon rate achieved on the debt issuance. At December 31, 1994, there were no open forward contracts on interest rates.

The counterparties to these derivative contracts are major financial institutions. The Company is exposed to credit loss in the event of non-performance by these counterparties. The Company manages this exposure by monitoring the credit standing of the counterparty and establishing dollar and term limitations which correspond to the respective credit rating of each counterparty. The Company does not have significant exposure to an individual counterparty and does not anticipate non-performance by any counterparty.

NOTE 12: COMMON SHAREOWNER'S EQUITY

Transactions affecting shareowner's equity follow:

	Common shares	Retained earnings	Total
Balance at December 31, 1991	\$6,073	\$1,764	\$7,837
Net loss	-	(774)	(774)
Dividends declared	-	(989)	(989)
Equity infusions	384	-	384
Other - net	-	(1)	(1)
Balance at December 31, 1992	6,457	-	6,457
Net loss	-	(2,683)	(2,683)
Dividends declared	-	(919)	(919)
Equity infusions	285	-	285
Other - net	-	-	0
Balance at December 31, 1993	6,742	(3,602)	3,140
Net income	-	1,175	1,175
Dividends declared	-	(1,175)	(1,175)
Equity infusions	544	-	544
Other - net	-	-	0
Balance at December 31, 1994	\$7,286	(\$3,602)	\$3,684

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 14: INCOME TAXES

The Company is included in the consolidated tax return of U S WEST. Under an agreement with U S WEST, the Company recognizes income taxes on a separate return basis. At December 31, 1994 and 1993, the Company had outstanding taxes payable to U S WEST of \$29 and \$96, respectively.

For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

The components of the provision for income taxes follow:

	Year Ended December 31,		
	1994	1993	1992
Federal income taxes			
Current	\$415	\$394	\$393
Deferred	228	(122)	31
Investment tax credits - net	(47)	(56)	(63)
	596	216	361
State and local			
Current	68	62	59
Deferred	42	(26)	15
	110	36	74
Provision for income taxes	\$706	\$252	\$435

The unamortized balance of investment tax credits were \$231 and \$280 at December 31, 1994 and 1993, respectively.

Amounts paid for income taxes were \$551, \$338, and \$465 respectively, for 1994, 1993 and 1992.

U S WEST COMMUNICATIONS, INC.
SUPPLEMENTARY FINANCIAL DATA
(Dollars in millions)

QUARTERLY FINANCIAL DATA (Unaudited)

Quarter	1st	2nd	3rd	4th
1994				
Operating revenues	\$2,218	\$2,243	\$2,267	\$2,270
Operating income	541	536	545	528
Net income	297	295	285	298
1993				
Operating revenues	\$2,141	\$2,151	\$2,148	\$2,216
Operating income (loss)	499	477	(407)	505
Net income (loss)	267	193	(3,417)	274

First, second and fourth quarters' net income in 1994 includes gains on sales of certain rural exchanges of \$15, \$16 and \$20, respectively.

Second quarter 1993 net income reflects the costs associated with the refinancing of debt in the amount of \$50.

Third quarter 1993 operating loss reflects the restructuring charge of \$880 (\$534 after-tax) described in Note 5 of the Notes to Consolidated Financial Statements.

Third quarter 1993 net loss includes, in addition to the effects of the restructuring charge, the impacts of discontinuing the application of SFAS No. 71 of \$3,041, the cumulative effect of a federally mandated increase in income taxes of \$54 and the early extinguishment of debt of \$27.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(b) Reports on Form 8-K:

No filings on Form 8-K were made in 1994.

(c) Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission ("SEC"), are incorporated herein by reference as exhibits hereto.

Exhibit
Number

- (2a) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Northwestern Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2a to Form SE filed on January 8, 1991, File No. 1-3040).
- (2b) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Pacific Northwest Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2b to Form SE filed on January 8, 1991, File No. 1-3040).
- (3a.1) Articles of Incorporation of the Registrant as amended December 22, 1980 (Exhibit 3a to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (3a.2) Articles of Amendment to the Articles of Incorporation of The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) as filed with the Colorado Secretary of State. (Incorporated herein by this reference to Exhibit 3 to Form SE filed on January 8, 1991, File No. 1-3040).
- 3a.3 Articles of Amendment to the Articles of Incorporation of U S WEST Communications, Inc. as filed with the Colorado Secretary of State on June 24, 1993.
- 3a.4 Statement of Reduction of State Capital of U S WEST Communications, Inc. as filed with the Colorado Secretary of State on October 18, 1993.
- (3b) Bylaws of the Registrant as amended February 16, 1993.
- (4) No instrument which defines the rights of holders of long and intermediate term debt of the Registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- (10a) Reorganization and Divestiture Agreement dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., and certain of their affiliated companies, including The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, Pacific Northwest Bell Telephone Company and NewVector Communications, Inc. (Exhibit 10a to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10b) Shared Network Facilities Agreement dated as of January 1, 1984, between American Telephone and Telegraph Company, AT&T Communications of the Midwest, Inc. and The Mountain States Telephone and Telegraph Company (Exhibit 10b to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10c) Agreement Concerning Termination of the Standard Supply Contract effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10d to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on March 28, 1995.

U S WEST COMMUNICATIONS, INC.

/s/ David R. Laube

By

David R. Laube
Vice President, Controller
and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

A. Gary Ames, President and Chief Executive Officer

Principal Financial Officer:

James T. Helwig, Vice President and Chief Financial Officer

Principal Accounting Officer:

David R. Laube, Vice President, Controller and Treasurer

Directors:

/s/ A. Gary Ames

/s/ James T. Helwig

/s/ James M. Osterhoff

/s/ David R. Laube

By

David R. Laube
(for himself and as Attorney-in-Fact)

Dated: March 28, 1995

EXHIBIT 12

U S WEST COMMUNICATIONS, Inc.
 RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in Millions)

	Quarter Ended	
	12/31/94	12/31/93
Income before income taxes (1)	\$477	\$415
Interest expense (net of amounts capitalized)	88	88
Interest factor on rentals (1/3)	18	19
Earnings	\$583	\$522
Interest expense	104	88
Interest factor on rentals (1/3)	18	19
Fixed charges	\$122	\$107
Ratio of earnings to fixed charges	4.78	4.88

	Year-to-Date	
	12/31/94	12/31/93
Income before income taxes and extraordinary items	\$1,881	\$687
Interest expense (net of amounts capitalized)	331	374
Interest factor on rentals (1/3)	70	67
Earnings	\$2,282	\$1,128
Interest expense	367	374
Interest factor on rentals (1/3)	70	67
Fixed charges	\$437	\$441
Ratio of earnings to fixed charges	5.22	2.56

(1) The year end 1993 ratio includes a one-time restructuring charge of \$880. Excluding the restructuring charge the ratio of earnings to fixed charges would have been 4.55.